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The Plan Which Is Being Followed

Major space was devoted in the February issue to John Maynard Keynes, the late British economist, who was the spiritual godfather of the New Deal and of the present economic climate of thought in the United States. It should be realized that Keynes is godfather to the ideas of both the Democratic and Republican parties.

In this issue we present miscellaneous comments about Keynes's ideas.

* * *

We have in recent issues given major attention to the economics phase of our field of publishing. Beginning with the April issue we plan to revert to some ethical problems.

Readers know of our great interest in what the correct meaning is of the requirement to show "brotherly love." We devoted a large part of the issues in 1955 to that subject. But it has by no means been completely covered. We are, in fact, dissatisfied that we could not devote more space to the problem. We hope to analyze more fundamentally the questions of brotherly love, selfishness, and the propriety and morality of the various motivations men have.

We plan, too, to discuss the "absurd" statement in the Sermon on the Mount, *Resist not evil.* Few of course take that seriously *as it reads.* Some of our readers may know that Leo Tolstoi interpreted that statement *literally,* as being the essence of the teachings of Christ! We cannot accept that pacifism.

Naturally, our approach to these problems will be from the economic side, one of the purposes of our inquiry being to discover what economics can contribute to an understanding of Biblical ethics. fn

Introducing Keynes — A "Play" In Three Acts

(In this play Mr. J introduces Mr. S. Mr. S in turn introduces Keynes.)

Act I — Mr. *J*

When *J* died he was 48 years old and chairman of the Board of one of the most famous merchandising corporations in the world.

J was born on a farm in Missouri — but it was not much of a farm, because it was on the fringe of the Ozarks; not exactly "bad lands," but certainly not good.

J detested farming. *J*'s father was not tolerant about that.

One day in the middle of the afternoon *J* made a sudden resolution. He jerked the reins of the mule team and headed for the barn. He unhitched the team, went into the house, packed a pathetic suitcase and left for St. Louis.

There he got a job; went to a business night school; then continued in regular school work, graduated from college, came to Chicago, became a famous professor, pioneer business man and professional leader.

He was a man with a forward view, one of the finest business analysts in history. His ambition was unlimited. What might have come his way — a senatorship, high diplomatic post, a cabinet membership, the presidency of the United States? Some of these are probabilities and the presidency was certainly a possibility. A man of that calibre.

But although a pioneer thinker in methods of planning for the future, he did not have on his budget his sudden death at 48. He did not know it, but for him it was later than he thought.

J is the source of the information which follows.

Act II — Mr. *S*

In New York City there is a famous investment banking firm; one of the best known in America.

A generation ago a small boy of a poor and immigrant home applied at this banking firm for a job as office boy.

But little *S* could not get a job there. The partner to whom he talked shook his head and said, "You are too small, and we do not need any more office boys. Sorry. Run along."

But *S* had observed when he came in and went out that the office boys, waiting for calls to run messages, sat together on a bench provided for them. The next morning little *S* was sitting on the bench, and in his turn took care of messages and other duties.

A week or ten days later the partners were at lunch. One of them said to the partner who took care of personnel matters: "Say, Henry, that new office boy you hired is a dandy."

The other partners immediately concurred.

But Henry was mystified. "What new office boy? I've been away, but I have not hired a new office boy in two months."

The matter was investigated, and it turned out that *S* was working for the firm *without having been employed and without being paid.*

But firms do not discharge "employes" with such energy and resourcefulness. Little *S* stayed on and became a partner in a famous banking house. When old he was loaded with honors, directorships, and was everywhere respected for his practical wisdom.

S, himself, personally told the foregoing story of his first employment to *J.*

Act III — Keynes

There was a day when *S* and Keynes became associated. There was a government department in Washington. Two men were appointed to be advisors, or available for advice, to the head of this government department. One was John Maynard Keynes and the other was *S,* then in the prime of his life.

S and Keynes had adjoining offices. Their work involved no routine. They had, in a sense, the leisure or liberty to work on what they wished, except that they were expected to be available when their advice and services were wanted.

Keynes kept bobbing in and out of *S*'s office. He would come in and say, "*S,* what do you think of this idea," which would be some unorthodox scheme.

S would sit and think for a while, and then say, "That will not work, for this reason," and he would go on to explain that the idea could not be worked out in any *practical* way.

Keynes would listen and finally drift back to his own office with some remark to the effect that he realized that what *S* had said was right.

But it would not be long before he would bob in with another scheme which he would again present with enthusiasm as a bright idea. The conclusion was pretty regularly the same, namely, the idea was not practical; or in simple language, would not work; or in still simpler language, was fallacious and wrong.

S told this story to *J*. *J* told this story to the writer, as something illustrating the foibles of a famous economist.

Keynes was a man with an understandable vanity about having new ideas. In a practical job he needed a practical man, ex-office boy *S*, to keep him from putting out fallacious notions.

Unfortunately, Keynes did not have Mr. *S* around when he wrote *The General Theory of Employment, Interest and Money.*

fn

Two Kinds Of Socialists

There are various kinds and degrees of socialists. Still they can all be covered by one label, that of socialism. We shall endeavor to make clear the important distinction between a socialist who is a socialist in regard to *production* and a socialist who is a socialist in regard to *distribution.* In this situation *production* and *distribution* have economic meanings.

By *production* is meant the organization of society, or in other terms, the economic order. A man is a socialist in regard to the economic order of society if he believes in centralized direction and control of production. He believes in a "plan" set up by a bureaucrat. Of course that means he believes in the right to coerce; if there is a centralized plan, all other plans must be subservient to it. Socialism stands for *centralized* planning. Capitalism stands for *decentralized* planning. The first is tyranny; the second is freedom. An economic order is, therefore, either centrally planned and tyrannical; or it is decentrally planned and is free.

By *distribution* is meant the shares various people get out of what is produced. This distribution to each can be proportionate or disproportionate to the production by each. The socialist principle of distribution is that the shares will *not* be in proportion to production. Its rule is "from each according to his ability to

each according to his need"; this is the famous Law of Love of socialism which outdoes the ancient Hebrew religion and also the Christian religion throughout the ages, up to the time the social gospel took over Christianity. Since then the social gospel's Law of Love has set out to rival the socialist Law of Love. In contrast to the socialist principle of distribution which has just been outlined, the capitalist principle is an exact equality between production and shares in distribution. This, according to capitalism, is accomplished by a *free* market, everybody is able to get for his production what another is willing to pay for it. A large producer in the estimate of his fellows gets a large return; a small producer in the estimate of his fellows gets a small return.

A man can then be a "socialist" in any of three senses.

1. A socialist regarding production only — namely, a man who wants production *centrally* planned and controlled, but distribution to be proportionate to production.

2. A socialist regarding distribution only — namely, a man who wants the rewards of work distributed according to needs and not according to productivity, but he is against central planning.

3. A socialist in both production and distribution; that is, he believes in central planning *and* in a man getting shares different from his contribution to production.

No one will fail to recognize as a socialist any one who is in the third group. Usually someone in the first group will also be considered to be a socialist. However, the second group throws people off balance in their judgment; many people think that people in class two, those who are against central planning, are not socialists. But they are.

To make that clear we shall tell an anecdote. fn

The Socialist Mayor Who Was Against Certain Union Activities

Some time ago one of the large cities in the United States had a socialist mayor. Further, at the time in question there were serious labor disturbances in that city. Believe it or not, that

socialist mayor was openly and angrily hostile to the labor unions causing the disturbances. Now it is strange, that a socialist mayor would be endangering his popularity — would be reconciled about *losing* votes at the next election — by taking the side of the employers and opposing the employees. It does not "add up."

In that city there was a high executive of a large bank, a man of great abilities, warm sympathies, and inquiring mind. He was mystified why the *socialist* mayor of the city would be bitterly attacking the labor side and boldly agreeing with the employers' side. He shook his head and said that it did "not make sense." Then he asked, "What explanation can there be for Mayor . . . taking that position? I would think that it could have been predicted with absolute certainty that he would have been on labor's side."

The case is indeed not understandable unless one knows the difference between a socialist and a nonsocialist on the basis of what has been written in the previous article. The mayor was not a socialist in the sense of class one, that is, in regard to production. As he was not a socialist in regard to the system of production which should prevail, he consequently could not be a socialist according to class three either.

This mayor labelled himself as a socialist and had been elected on a socialist ticket, but was a socialist only in the sense of class two, and in that sense only was a convinced, impassioned socialist. At that same time that he was an ardent socialist regarding distribution he was an equally ardent nonsocialist regarding production.

Why are there some socialists (i.e., socialists in regard to distribution) who are passionately anti-socialists in regard to production? The answer is that these men (usually by considerable study of economics) have come to the conclusion that centralized planning is a woefully inefficient way to produce, and that in contrast decentralized planning is a marvelously efficient way. (Decentralized planning is, of course, the capitalistic way to organize production; it means that instead of some isolated bureaucrat controlling production, the *individual consumers* by their free

choices control production. A capitalist system of production (a decentralized system as indicated) provides a much better response to consumer wants and a much larger one.)

What happens under decentralized planning and production? Only the good planners and producers survive. The poor planners and producers "go broke." It is like in a spelling bee where the good spellers go to the head of the line and the poor spellers drop out; so in capitalist production, consumers favor in their buying the producers who do the most for them. The business of those producers gets bigger and bigger. Often they cut their costs more and more. They pass on (in a free market) the bulk of their savings to consumers — and so capitalistic production is to be preferred to socialistic production. The socialists in class two, of which the mayor of whom we are writing is an example, are pro-capitalistic and anti-socialistic *in regard to production but production only.*

Now, what had been happening in this big city with its socialist mayor? The unions were trying to accomplish something which, in the judgment of the mayor, would lower the efficiency of production and total output. He realized that it would take away from business men those decisions which they were in a better position to make. Business men should make decisions on their individual responsibility so that the inefficient among them will be liquidated and only the efficient (those who obtain high production) will survive. This mayor wanted high production, high efficiency. He was unalterably against any bureaucratic or union-controlled production situation. He was ready to risk his popularity and his job for that principle.

Should then this mayor and like people be reclassified and be called capitalists; or should they be called hybrids, namely, capitalist-socialists? Not at all; these people are still genuine socialists. In fact, they are the most seductive kind of socialists.

While our mayor was firmly convinced that production should be capitalistic, what did he think about *distribution* of the products produced in great quantity by that efficient capitalist system of production? To this question his answer was the answer of a

genuine socialist. The *distribution,* so he believed and declared, should be socialistic, that is, the rewards should not be in proportion to the value produced, but according to some other principle, namely, "from each according to his ability to each according to his need."

The mayor however was not an uninformed person and he had no intention of sending his chief of police to your house to make you give up some of the rewards you obtained by your efficient production and your hard work. As a socialist he was, on this subject, satisfied to follow Karl Marx and Friedrich Engels. These men wrote in the *Communist Manifesto* as follows (in Chapter II, "Proletarians and Communists"):

> The Communist revolution is the most radical rupture with traditional property-relations; no wonder that its development involves the most radical rupture with traditional ideas.
>
> * * *
>
> Of course, in the beginning, this [radical rupture] cannot be effected except by means of despotic inroads on the rights of property, and on the conditions of bourgeois production, by means of measures, therefore, which appear economically insufficient and untenable, but which, in the course of the movement, outstrip themselves, necessitate further inroads upon the old social order, and are unavoidable as a means of entirely revolutionizing the mode of production.
>
> These measures will of course be different in different countries.
>
> Nevertheless in the most advanced countries the following will be pretty generally applicable:
>
> 1. Abolition of property in land and application of all rents of land to public purposes. [*Farmers, indeed nobody, should own land.*]
>
> 2. A heavy progressive or graduated income tax. [*Or, as usually expressed, from each according to his ability shall be taken to give to others according to their need.*]

3. Abolition of all right of inheritance. [*That is, the elimination of the motive of working harder and longer than otherwise for the benefit of your children.*]

4. Confiscation of the property of all emigrants and rebels. [*A protest by you will pretty much be the end of you.*]

5. Centralization of credit in the hands of the State, by means of a national bank with State capital and an exclusive monopoly. [*Marx and Engels itched to get their hands on the power to determine the quantity of fiduciary media.*]

6. Centralization of the means of communication and transport in the hands of the State. [*They wanted control of telephone, telegraph, radio, television, newspapers, magazines, etc., in order to have complete thought control; and of railroads, highways, etc., so nothing could occur contrary to the will of the rulers of the State.*]

7. Extension of factories and instruments of production owned by the State, the bringing into cultivation of waste lands, and the improvement of the soil generally in accordance with a common plan. [*In simple words, State ownership of all means of production.*]

8. Equal liability of all to labor. Establishment of industrial armies, especially for agriculture. [*Anyone who has served in the Armed Forces knows what is meant, to wit, you will be under discipline and ordered around.*]

9. Combination of agriculture with manufacturing industries; gradual abolition of the distinction between town and country, by a more equable distribution of population over the country. [*Mass transference of population according to bureaucratic whim; what is proposed will have to be contrary to what people are now willing to have; or else they would already have had it voluntarily.*]

10. Free education for all children in public schools. Abolition of children's factory labor in its present form.

Combination of education with industrial production, etc., etc. [*More regimentation. There would be no private schools left.*]

Our socialist mayor, following Marx and Engels, put his confidence in regard to *distribution according to socialist principles* in number 2 in the foregoing, namely, in:

"*A heavy progressive or graduated income tax.*"

This idea is now well known in this country; the more you produce and earn, the higher not only your tax but also your tax *rate*. The income tax in this country begins at 20% and rises to 91%. This is the device which will accomplish, from each according to his ability to each according to his need.

Our mayor was a man who believed thoroughly in this idea. He had been influenced by people who favored a steeper progression upward in the tax *rate* than presently exists.

This then was the mayor's psychology:

1. Get efficient *production* by the capitalist method, by a capitalistic *economic order,* but

2. Having got that, take the rewards away from the producers by a "heavy progressive . . . income tax" — that is, by *socialist distribution.*

In other words, use capitalism to get high production, but after people have worked hard to do that, then take away from them the extras they thought they were going to get for the extra effort — by means of the *progressive* tax — by socialism.

Have you ever visited a dog race track? Have you seen the greyhounds strain themselves to catch the mechanical jack rabbit kept in front of them? How they run! But the quarry gets away from them. The dogs run in vain.

Our socialist mayor was a man who believed that men are not smarter than greyhounds. He believed that they would work and plan intensely as if they would in the end get the jack rabbit as a reward, but that at the same time they knew it would be taken away from them through the progressive income tax! It may be asked: is that plausible? Are men such fools: to know

that the rewards will be taken away from them just at the moment of accomplishment, but nevertheless to exert themselves and work as if they were going to keep the rewards!

Where might our socialist mayor have got his combination of ideas on (1) capitalist production, and (2) socialist distribution. He did not get that combination from Marx. Marx was in favor of both (1) socialist production and (2) socialist distribution. Marx was a socialist in the sense of number 3 on page 70. Our mayor probably got his idea from Keynes, but not directly; the channel probably was Henry C. Simons or Alvin H. Hansen.

Simons in his lifetime was professor in the economics department of the University of Chicago. Simons was eminently a capitalist in his ideas in regard to *production.* He wrote a book entitled *Economic Policy For A Free Society.* Chapter VI, entitled, "Some Reflections On Syndicalism" is probably as effective an attack on coercive labor unionism as has ever been written. Simons makes clear that labor unionism is one of the most damaging, calamitous features of the American economy. He recognizes labor unionism in this country to be nothing less, if you can see beneath the surface, than Mussolini's syndicalism. (Simons, if he had known of them, would have been equally opposed to Abraham Kuyper's idealistic ideas on syndicalism.) Labor unionism in the United States today is in fact disguised syndicalism or fascism. Simons, by good logic, pretty well destroyed the case for syndicalistic unionism; such unionism is obviously against the public interest (and against the Decalogue).

Whereas Simons was, for reasons of simple logic, a determined and persuasive advocate of a capitalistic system of production *and of initial rewards,* he was an equally definite advocate of a socialistic distribution system. He favored a more highly progressive personal income tax rate than has at any time existed in this country.

Many people think Simons was a strong "capitalist." He was that *only in regard to production.* But it is really the end result that counts, and the end result in this case was practically socialistic *distribution.* And so Simons was, in reality, socialistic.

* * *

We showed on pages 59 and following of the February issue in the article entitled "Keynes As A Socialist," that Keynes was a socialist in the same sense as Simons and the mayor we have mentioned. Keynes was willing that some part of capitalist production be retained and part of capitalist distribution, but he, too, was enviously in favor of a much more socialistic confiscation of income and property by means of progressive taxation. fn

The Terrible Case Of The Father Maiming His Son Almost To Death

MacDonald, who lived on a highway not far from a big intersection, had a son named Albert, already 24 years old.

Albert wished to go to a softball game. The father did not oppose that, but there was a small job which Albert had been expected to do, but had not done. The father suggested to Albert that he do that little job *before* he went to the ball game. Albert complied. Nothing much had been said on either side. The situation was amiable.

Albert left, but unfortunately at the intersection a semi-trailer ran the red light, smashed broadside into Albert's car, knocked him senseless, broke his two legs, crushed several ribs, and brought Albert to death's door. The ambulance brought him to the hospital. However, the injuries were not fatal.

A few days later Albert's father was making one of his regular visits to the hospital. In the course of conversation Albert said to his father, "The accident would not have happened except for you; it is your fault."

"*My* fault?" the father asked in astonishment.

"Oh, yes," said Albert, "if you had not asked me to do that work before I left the house, I would have crossed the intersection earlier and I would not have been hit and nearly killed."

The father was so astonished that his son was accusing him of *causing* the accident that he said nothing.

* * *

In a sense, there can be no question that Albert was right. The delay that the father had caused resulted in that *combination of circumstances* that brought about the accident.

No event has, in a broad sense, a *single* "cause." There are a lot of things that happen before an accident which if they had been different would have resulted in an accident not happening.

Someone with a twisted mind or without a capacity for sound reasoning may pick any of a dozen factors necessary to have been just so, in order for an event to happen, as Albert picked the factor of his father having made a request of him. But sensible and reasonable people do not reason that way. In the case of Albert's accident, the "cause," in the eyes of the law and in the judgment of reasonable people, was that the truck driver ignored the red light. It was, shall we say, reasonable for Albert to have expected that the trucker would come to a stop for the red light. The *reasonable* expectation was disappointed, and so the accident happened. *That* was the cause.

In all reasoning, one of the difficult things to do is to pick out the *significant* cause, the one that really counts.

* * *

In every society there are several kinds of potential unemployment, namely, (1) voluntary unemployment; (2) frictional unemployment; (3) cyclical unemployment; and (4) chronic unemployment (see January 1958 Progressive Calvinism, pp. 11-25).

We have explained that (1) voluntary and (2) frictional unemployment are, looked at in the large, a basic requirement for freedom and welfare, and consequently must not be regarded as calamities or as damaging to society.

It is different with cyclical unemployment and chronic unemployment.

(3) Cyclical unemployment is caused by a public sin, to wit, the power given to government by its citizens to authorize the issuance and withdrawal of fiduciary media. That "power" or option is fatal in itself. It is sure to be exercised. When exercised

to expand fiduciary media there is a boom or boomlet depending on the extent. Equally inevitably, there is a depression or a recession when such fiduciary media is reduced or withdrawn. The logic is obvious and inescapable. That expansion and contraction of fiduciary media is the *cause* of the business cycle, and of resulting cyclical unemployment in the depression phase of the cycle. Any other cause ascribed as explaining the depression and its cyclical unemployment is no more the *cause* than Albert's accusation that his father had *caused* the accident is a correct explanation. All the talk of overproduction, underconsumption, oversaving, inadequate propensity to consume are all "causes" only in the sense that Albert's accident was "caused" by his father.

(4) The same holds true in regard to chronic unemployment. That is not caused by any "cause" such as overproduction or oversaving nor is it caused by fiduciary media. It is caused by *coercion,* by forcing wage rates above the economic (unforced, natural, voluntary) level, or by other price coercion.

John Maynard Keynes said that capitalist production (by which he plainly meant a *free* society) surely resulted, except in the rarest of situations, in chronic unemployment. He gave as a "cause" for chronic unemployment the public's *inadequate propensity to consume,* that is, basically, that people are unwilling to spend enough to provide full employment, the steady lack of which is chronic unemployment.

But, really, the *inadequate propensity to consume* is as "reasonable" an explanation of chronic unemployment as Albert's peevish accusation muttered between grunts of pain that his father had "caused" the accident. The real cause of chronic unemployment is *coercion* in some form or other, just as the real cause in Albert's accident was the truck running a red light. fn

Keynes's Letter To Roosevelt On Spending Our Way To Prosperity

The *New York Times,* on December 31, 1933, published Keynes's *Open Letter* to President Roosevelt. Here is part of the letter; the italics in the quotation are ours:

> . . . "Broadly speaking, therefore, an increase of output can occur only by the operation of one or other of three factors. Individuals must be induced to spend more out of their existing incomes, or the business world must be induced, either by increased confidence in the prospects or by a lower rate of interest, to create additional current incomes in the hands of their employes, which is what happens when either the working or the fixed capital of the country is being increased; or public authority must be called in aid to create additional current incomes through the expenditure of borrowed or printed money.
>
> . . . "Thus, as the prime mover in the first stage of the technique of recovery, *I lay overwhelming emphasis on the increase of national purchasing power resulting from governmental expenditure which is financed by loans and is not merely a transfer through taxation from existing incomes.*
>
> . . . "The set back American recovery experienced this past autumn was the predictable consequence of the *failure of your administration to organize any material increase in new loan expenditures* during your first six months of office. The position six months hence will depend entirely on whether you have been laying the foundations for larger expenditures in the future."

Readers should note Keynes's emphasis on increasing government expenditures in a depression by funds raised by printing fiduciary media and *not by taxes.* When the government acquires funds to spend *by taxing its citizens* it does not *create* fiduciary media; it merely *transfers* purchasing power from tax payers to itself. But when it finances its greater expenditures *by loans* as Keynes here had in mind, it is by that very act putting out fiduciary media.

What was Keynes's solution? When you have nothing to buy with, when you have no real goods to offer in exchange for what you wish to buy, then just manufacture the money by means of an increase in debt. This is public fraud and theft.

Common sense recoils from that, with the assurance that the solution is spurious and the morality wrong. But logic does not

prevail. We "reason" *emotionally.* We *wish* to solve our problems by a method contrary to the Law of God; we *prefer* the route of covetousness, fraud and theft.

The current policy followed by the Eisenhower administration in the present "recession" is obviously in the direction of the Keynesian solution; the administration proposes to spend more than it takes in.

If it is moral and wise for a government to do that, why is it not moral and wise for all the rest of us to do the same?

Fifty years ago the Keynesian policy would not have received serious consideration. People would have been shocked by its immorality. Today it is considered the only solution of which people can think or which they consider acceptable. It is even considered moral!

The Keynesian road is the road to eventual sure catastrophe. *Apres nous le deluge* (after us the deluge) Mme. de Pompadour said before the French Revolution! She at least was foresighted enough to expect future trouble. Americans lack the foresight to see what their future is sure to be. fn

Right Now We Are Preparing To Put Out More Fiduciary Media

On February 19 the Federal Reserve Board reduced reserve requirements of member banks one-half of one percent. That "freed" about $500,000,000 of member bank reserves.

Because the United States has (unwisely) what is known as a fractional reserve banking system it becomes possible to put out about six times as much *additional* fiduciary media (manufactured money) as reserves are released.

Thus, the lending capacity of the banks has been increased six times $500,000,000, or approximately three billion dollars.

This is one of the several ways that more fiduciary media — manufactured money — can be issued in the United States.

Here is how we as citizens reason and the sequence that we seek:

1. We want wages to go up and up, in order to provide union officials with the argument that they are really helping the worker.

2. Wages, by union coercion led by union officials, go higher than they should be, considering commodity prices.

3. Profits shrink; businesses retrench.

4. We get unemployment.

5. But we want no unemployment.

6. And so we put out more fiduciary media, manufactured money.

7. Then prices go up.

8. Then employment increases again.

9. The union bosses now need to get another increase in wages to persuade the workers that they need the union and its bosses. Wages are again forced up.

Then we continue all over again on the same scheme as was outlined.

And we think that this scheme, a scheme which Keynes favored, will eventually work out! We should be able to see clearly that we are like an opium smoker; we have to take more and more of the poison to keep the system going. Opium smokers shorten their lives. Societies which inflate will eventually be destroyed.

The system which has been outlined in this and recent issues is not imaginary. It is working every day, before our very eyes. fn

Keynes As An "Academic Scribbler"

The last half of the last paragraph in Keynes's book, *General Theory of Employment, Interest and Money,* reads as follows:

> But apart from this contemporary mood, the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by

> little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not, indeed, immediately, but after a certain interval; for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil.

Keynes's words were prophetic. Those who follow his ideas today are "madmen . . . , who hear voices in the air, . . . [who get] their frenzy from [an] academic scribbler of a few years back" — from a man named Keynes. fn

A Bibliography Of Articles On Keynes

We suggest to readers who are interested in further information about Keynes's ideas that they read the following:

Ludwig von Mises: "Stones Into Bread, the Keynesian Miracle," the fourth essay in *Planning For Freedom* (Libertarian Press, South Holland, Illinois, 1952) reprinted from *Plain Talk,* by permission of Isaac Don Levine (13 pages).

Ludwig von Mises: "Lord Keynes and Say's Law," the fifth essay in the same book, reprinted from *The Freeman,* 1950 (7 pages).

Benjamin M. Anderson: *Economics and the Public Welfare,* (D. Van Nostrand Company, Inc., New York, 1949) chapter 60, with the title, "Digression on Keynes"; also printed in abbreviated form as a "Note" in *Financing American Prosperity,* a Symposium of economists, edited by Paul T. Homan and Fritz Machlup, The Twentieth Century Fund, 1945, pp. 63-70.

Jacques Rueff: "The Fallacies of Lord Keynes' General Theory" in *Quarterly Journal of Economics,* May 1947, pp. 343-367.

The two essays by Mises reveal the following concerning Keynes:

1. That Keynes was a man who declared that by putting out fiduciary media — bad money — society would be benefited so that "a stone would be turned into bread" — a "miracle" in Keynes's language. Mises refutes that fallacy with a treatment that it deserves.

2. That Keynes was a man who disputed Say's Law of Markets but was not able in any sense to refute it.

3. That Keynes was a man who merely dressed up the old and long and thoroughly discredited cheap money policies of Silvio Gesell and other money cranks; the dressing up consisted in the use of questionable mathematical formulae.

4. That Keynes was a man who did not really *initiate* unsound monetary policies; those unsound monetary policies were already extensively in use by practically all governments, nearly all governments already having had recourse to inflationism; Keynes merely developed a spurious dogma to justify an evil that already existed.

Benjamin M. Anderson shows in his essay on Keynes that Keynes either did not understand Say's Law of Markets or misrepresented it.

Jacques Rueff, French diplomat, economist and one-time Deputy Governor of the Bank of France, approaches the subject differently. He adjusts himself to the presentation by Keynes as far as he can. Having done that, he shows that Keynes should have gone further, and that if he had done so, the lack of consistency in the whole Keynesian scheme would have become apparent. Whereas the previous writers dispute and destroy Keynes's premises, Rueff shows that the Keynesian scheme is defective even granting its premises.

We quote the last two paragraphs of Rueff's article. This is not part of Rueff's argument, but his melancholy conclusion:

In spite of these prospects, it is probable that the next period of depression will see a general application in the world of the policy suggested by Lord Keynes. I am confident that this policy will not reduce unemployment, except to a very limited extent, but that it will have profound consequences upon the evolution of the countries in which it is applied. Through the economic disorders to which it will give rise, it will re-establish in the world a regime of general planning analogous to the regime of war time and based upon the suppression of all individual liberty. Thus the next economic crisis seems likely to be the occasion for profound political changes, welcome to some people, dreaded by others. In any event, being based on a false theory, the remedies which will be adopted will give rise to repercussions very different from those they were designed to produce. Their ineffectiveness will be, for a great part of public opinion, one more reason for urging the suppression of a regime which, by denying itself, will have destroyed itself.

Whom Jupiter wishes to destroy, he first makes mad.

What may Rueff mean in regard to his sentence, "Their ineffectiveness will be, for a great part of public opinion, one more reason for urging the suppression of a regime which, by denying itself, will have destroyed itself"? This, we think, is what he means:

1. What Keynes recommended will be ineffective, and because of its bad results, confidence will be lost.

2. Many people (public opinion) will consider their disillusionment in regard to the failure of the schemes of Keynes to be a reason for getting rid of a capitalistic economic order itself! That will be illogical, but

3. That will be a penalty on capitalism for its having "denied itself" — for not having rejected out of hand — Keynesian theories especially about inflationism (theft) and also union coercion (violence) as bad economics, or in our language as gross sins;

4. Consequently, people will, tragically in error, urge the "suppression" of capitalism — and turn towards socialism, communism or some other tyranny.

Then Rueff adds the melancholy words, "Whom Jupiter wishes to destroy, he first makes mad." It is, in truth, madness to accept any of Keynes's ideas. But we would not quote the ancient Greeks as Rueff does: we would quote Moses: *Your sins will find you out.* fn

How To Save Yourself From The Penalties Of Two Public Sins, Union Coercion And Governmental Fiduciary Media

A drowning person sometimes clutches a person who comes out to save him so that both drown.

The Christian religion requires that we endeavor to help our fellow men in all their thinking so that they do not damage themselves. Certainly in regard to the evil combination of (1) union coercion and (2) compensatory inflationism by means of fiduciary media in order to avoid chronic unemployment, a Christian should emphatically warn against them because they violate the Sixth and Eighth-Ninth Commandments. Not to warn, not to campaign against the twin evils mentioned (which in union together can merely postpone the penalty of sin), is to fail in our duty as Christians. We are our brother's keeper in the sense that we must endeavor to help him get all his thinking straight. In our figure of speech, we must go out into the water and try to rescue our fellow men from drowning in the combination of coercion-fraud-theft in which we all have plunged ourselves.

But what if our fellow men will not listen? Suppose they haughtily reject our warnings. Are we then to swim up to them, let them clamp their arm around our neck, and eventually drown with them? In other words, how protect ourselves personally (as well as possible) against the penalties, sure to come, from violating the law of God by coercion, fraud and theft?

The delayed penalty, as indicated, will eventually show up in run-away inflation, that is, in steadily rising prices of goods; or saying the same thing in reverse, in a steadily shrinking value of the dollar; relative to goods a single dollar will not buy so much as formerly; and so rising prices for goods means lesser relative

value for the dollar. But the *final* penalty will be economic, political *and moral* chaos. The moral chaos is inevitable, because we are unwilling to face truth and reality. Remember Rueff's prophecy.

Clearly, to avoid a penalty to oneself it is necessary to own goods and not dollars; more specifically, the individual's program should be:

1. Always to be fully invested. Whatever you save, put the money to work *at once.*

2. Do not invest in "calls on dollars." If you invest in insurance, in a savings account, or a building and loan association deposit, or in a mortgage, or in life insurance, or in debentures, or in nonconvertible preferred stock, you will finally get back only *dollars.* Your investment is a "call on dollars." In an inflationary economy it is a mistake to make investments which are merely such "calls on dollars." As just explained the present dollars, or the future dollars on which you have a "call," are steadily shrinking in relative value, that is, in value relative to real goods (commodities, services). Whereas your cost of living is going up constantly, your dollars are not.

3. Invest instead in *real goods themselves* — buy houses, farms, commercial real estate, nonperishable commodities, common stocks. Under inflation, the prices of these goods go up in value with the general rise in prices. In the suburban village in which we live some of the well-to-do farm families have for generations bought mortgages on real estate. But after the United States went off the gold standard in 1933 and adopted the fiscal and monetary policies recommended by John Maynard Keynes, the well-informed farmers sold their mortgages or insisted on being paid when they came due. With the former mortgage funds they bought houses or built them. They shifted from "calls on dollars" (mortgages) to houses themselves (*goods,* in an economic sense). Say they had had $5,000 invested in a mortgage; they cashed in on it. Next, they built a house for $5,000, which could be done in the 1930's. What is that house worth today? Probably $15,000. The house was a protection (a *hedge,* as the expression goes) against inflation. Suppose these farmers had left their money in

mortgages. They would still have a mere "call" on $5,000. That $5,000 mortgage if cashed in today would buy one-half or one-third as much as in 1936. Visitors here can be shown rows of houses wisely built by shrewd farmers in the 1930's after the United States went off the gold standard. They "knew the score."

4. But, of course, everyone has a demand for *cash,* a requirement of having ready money on hand. How can a man avoid a loss on the cash he must keep on hand for convenience and safety? There is no way to avoid that; but he can offset it by going into debt and using the money so raised in order to invest in more real goods (real estate, common stocks, etc.). Thereafter, what he loses on his necessary cash balance, he recovers in the rise of the prices of the real goods that he bought with the borrowed money. Suppose a man has a cash requirement personally and for his business of $5,000. To be adequately hedged against inflation, he should then be a debtor for $5,000, too. The funds raised by going into debt should not, under this plan, be used for buying consumer goods or for spending, but for investing in real goods, from which there is a return to offset the interest charge on the borrowed $5,000.

* * *

The foregoing is about all that a man can do to protect himself against the consequences of certain public sins. Will he eventually come out unscathed? It is practically impossible. In the end, he will go down, almost certainly, with the whole mass of men. We shall *eventually* all drown together. But what has been outlined will *postpone* your own personal penalty from present public sins; it will not *eliminate* the penalty.

It will be well to exert ourselves to promote a sound doctrine on the subjects discussed in this issue. If we do not, we shall surely eventually help foot the bill. The full explanation of that is beyond this article.

However, assume all your neighbors are finally ruined by inflationism, but you alone are not. What will happen? They will say that you were lucky or a scoundrel, and they will pass a law to make you help restore their own fortune at your expense. They will call you a speculator or something, and pass a law that

speculators in order to help the rest must disgorge part of the assets they have saved from the catastrophe.

Or your neighbors may even say: We want socialism, because we have been ruined by capitalism. That means that they will take all your property from you.

But were they ruined by capitalism? No, they were not ruined by capitalism, but by principles contrary to capitalism, of a Keynesian character which they hitched onto capitalism. Under leadership of men as Keynes, who were really socialists, they achieved a perversion of capitalism which should never have been tolerated by men who understood capitalism.

We recommend you go out and save your fellow men from economic "drowning" whether they want to be saved or not. But if they refuse to be saved, we recommend you try to save yourself.

fn

Reserving Money, vs. Hoarding, vs. Investing

Consider a man who *saves*. In what does his saving consist?

1. He *hoards;*
2. He *invests;*
3. He *reserves* for his money needs.

Let us consider the third item first.

The Almost Universal Demand For A Reserve Stock Of Money

Everybody who is above an animal in his thinking needs a stock of *money* as a reserve. He has a *demand for money,* in that sense. The quantity of money that a man estimates he needs as a money reserve is determined by his circumstances. If he has a variable and irregular income his *demand* for a *reserve* or *stock of* money is greater than the demand of a stenographer who gets paid every week. A farmer with a crop only once a year has a bigger demand for a reserve stock of money than a wage earner.

Every prudent man saves in order to have a reserve supply of money to fit his varying money requirements. To save money in order to have a reserve of money is neither *hoarding* nor *investing.*

What does a man do with money beyond the need just mentioned?

He *hoards* beyond that point, or he *invests.*

Hoarding

A man *hoards* when he saves beyond his money requirements but does not utilize the savings, but hides it in his mattress, or under the carpet, or buries it in the garden in a fruit jar.

Do you do those things? Are you a hoarder? Probably not. Hoarding belonged to the age of ignorance and fear, and the age when there were few trustworthy savings institutions. Only a few eccentrics hoard today — people who are not well adjusted. Hoarding today is a trait of people who are queer. Certainly hoarding is inconsequential in modern life. Hoarding amounts to probably not 1/1000 of one percent of what is saved.

Investing

Finally, there are the savings that become *investments.* A man saves to build or buy a house, or to finance a business. Or if he does not save for those purposes, then he saves to buy investments. If he does not wish to do that or does not know how, then he puts his savings in life insurance, in a savings bank, or a building and loan association, or in postal savings. His alternative is to hoard the funds. But he does not hoard, because in one way or another he wishes to get an income, to wit, in the form (1) of living rent-free, or (2) of a profit in a business, or (3) in dividends on stocks, or (4) in rent from a farm, store, house, or apartment, or (5) in interest on bonds or on a savings account.

What does a typical thrifty man usually do?

1. He keeps enough money in reserve for what he estimates his needs will be, but no more; that is his *demand for money;*

2. He puts the rest to work; he *invests* it; and

3. He *never hoards,* unless the ownership of property is unsafe in the society in which he lives, so that he is under inducement to hide his assets.

Keynes On Hoarding

John Maynard Keynes declared that he believed too much is *saved.* What he really meant was that he believed too much is *reserved* or *hoarded.* He reasoned as follows: because too much is reserved or hoarded, therefore not enough goods and services are being bought; as a further result he concluded that there would be chronic unemployment.

Keynes's Misrepresentation Of What Happens When People Save

Readers who do their own thinking will realize that people regularly reserving money for their money needs will not thereby cause unemployment; further, that there is very little hoarding; and finally, that all other savings are *invested,* that is, are indeed put to work, thereby creating employment.

The "mechanism" by which "savings" which are put into insurance premiums, savings accounts, building and loan associations, bonds and stocks are actually put to work, *thereby creating employment,* may not be obvious to everybody. Suppose you save $100 by paying an insurance premium. What does the insurance company do? Leave that $100 idle until you die and then pay it back to your beneficiaries? To the contrary, it immediately invests that $100. It loans the $100 with other funds to a big industrial company for expansion; or it buys a mortgage on a house to be built. Insurance companies put every dollar they get to work in some form or other except a necessary working balance of cash which constitutes their "demand for a reserve of money" so that they can pay your and other beneficiaries promptly when you and others die.

The same holds true of a savings account in a bank. A bank does not have *idle* money. Surely, it must carry large cash reserves, because that is required by the way that customers use their banks — as a money reserve reservoir. But aside from that,

the job of every bank president is to make profits. In order to make money the president of a bank and his associates must keep every dollar working that they can. A bank loans to borrowers for every kind of purpose — to finance a business, to build houses, to buy on time automobiles and other fairly durable merchandise, to finance federal, state and municipal governments. A great banker once showed me his sources of income, in chart form. He said, "When one department produces less income, I have to find other ways to make up the decline; that is my job; *every asset of this bank has to be kept working.*"

Similarly if you invest in stocks. What you have saved is used by the management of the company whose stock you have bought in order to make money for the company. Your saving is put to work where it is invested.

Do Your Own Thinking

Nobody needs to do *your* thinking for you on this vital problem. Do not let Keynes think for you, nor PROGRESSIVE CALVINISM.

What happens when *you* save?

Let us start at the beginning. Say you are 18 years old, just graduated from high school, and you are now "on your own." Your father and mother are no longer supporting you.

You get a job. Say your pay is $50 a week. What do you do with it? You pay board; you buy clothes; you contribute to charities; you buy gas; you spend for incidentals. But do you spend *everything?* Not if you are prudent. You say to yourself, "I have to have some pocket money *all the time.*" And so you reserve maybe $10 from the first week's pay, and you continue that until your *cash reserve,* in your estimation, is safe for practical purposes, and *then you stop building up cash.* Maybe you figure you need a *cash* reserve of $40 or maybe $100. It will depend on your judgment and your situation.

Then what? Do you keep on "saving"? If you keep on, then you do one of two things:

1. You become a hoarder; or
2. You become an investor.

If you are a hoarder you get a fruit jar, a rubber band and a cover. You put the money in the jar; you seal it tight. You wait until your father, mother, brothers and sisters are in bed or away, and then you go out when it is very dark and bury that jar in the back yard. You square out a piece of sod, remove a little dirt, put in your jar, pack down the sod, remove all traces of what you did, locate the spot exactly, look around fearfully to see if any neighbor has seen you; then put the tools away, and sneak to bed. You are now a hoarder. Your money is not put to work. As a hoarder you initially probably cause some unemployment; in this manner: money is the agency by which there is a stream of exchange; every purchase and sale creates employment opportunities; but in that stream the hoarder fails to keep his money working; and so because of that someone has less employment.

Have you hoarded? Or has any of your friends? Personally, we do not think that there is much of that.

What we think you will do is something different. We believe you will instead take the money to a postal savings bank, or to a regular bank, or to a building and loan association, or you will buy a bond, or a stock, or a piece of land, or a house. In other words, you will not *hoard,* but you will *invest.*

When you *invest,* your savings go to work at once, and consequently *your saving does not cause unemployment.*

(In fact, even when you hoard you will not cause significant unemployment, if the respective markets for commodities and labor are *free and flexible.* But the explanation of that is beyond our present space situation.)

From the foregoing, we believe that *you will know for yourself* that Keynes's argument, that saving causes unemployment, is spurious. fn

The Plight Of Capitalism

Capitalism is in a terrible plight.

The cause of that plight can be stated in a comprehensive way by saying: *present day capitalism violates the Law of God,* by perpetrating and tolerating coercion (in violation of the Sixth

Commandment) and by the issuing of fiduciary media, action which is theft and fraud (in violation of the Eighth and Ninth Commandments).

These two characteristics of modern capitalism are cancerous and unless removed will probably destroy capitalism. The process is far advanced already even in the countries which are considered exemplars of capitalism.

But as if these two fatal diseases are not enough to destroy a good society, we all add a third folly. We are like a person dying of cancer who abandons the good doctors and surgeons who say we can be saved yet by drastic surgery — by cutting out the malignancy; instead we go to a quack in some backward village who is supposed to have a cure without surgery; to a fellow who has no competence and who preys on the ignorant and the desperate.

To whom does modern capitalism turn — to a real economist? No, it turns to John Maynard Keynes, a socialist at heart, an enemy of capitalism on every count. It applies the so-called Keynesian solutions to the problems of capitalism.

Capitalism is believed by professing capitalists to be saveable by adopting Keynesian "remedies," but those remedies are purely socialist in character. We have shown that in what precedes in this and other issues.

The Democratic Party platform and the Republican Party platform both outline Keynesian solutions to economic problems.

What chance has capitalism to survive if it turns to socialist quacks? That is exactly what capitalism is doing.

What will the uninformed public say? They will say: "Everybody could see that there was something wrong with capitalism. Why did they not do something about it? Surely, the remedies they tried must have been the best available. Clearly, capitalism will not do." But the public will not know that the blunder was perpetrated of foisting socialist solutions onto capitalism. *That* is why capitalism is in the process of failing.

Capitalism is doomed if it places its hopes on the nostrums of socialist quacks — men in the Keynesian tradition. fn

Business Men Will Not Save Capitalism

It is a vain hope to expect that business men will save capitalism.

Fifteen years ago we were sitting in the office of the treasurer of a huge American corporation. Neon signs advertising the product of this company appear on practically every business street in this country.

The treasurer was informing me. He said, "The business men of this country do not understand what is going on. They lack knowledge of economics. They do not know what is the only real solution to the problems of this country. The man who outlined that solution was Silvio Gesell. We have to solve our problems as Gesell outlined."

Who was Silvio Gesell?

He was a German who emigrated to one of the South American countries; prospered down there; decided to retire rather early, and did so by buying himself a small farm in Switzerland; from that pleasant vantage point he put out the economic ideas which he had developed in his lifetime. As Keynes himself says about Gesell: what more could a man want than to be pleasantly

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retired on a farm in Switzerland, with plenty of money, and with the time and the urge to write. Gesell was retired in a Keynesian heaven.

Gesell is properly described not as an economist but as a money crank, that is, an *easy*-money crank.

Gesell's idea was that prosperity is created by putting out more money (fiduciary media)! We shout: *Help.*

Keynes was nothing more than a Cambridge-educated Silvio. (Keynes differs on minor points with Silvio, but that is of no real consequence.)

And here was this treasurer of a huge corporation — that corporation's *financial* expert — schoolmasterishly telling me that the trouble with the world was that it had not adopted Gesell's money ideas, the essence of which was that we can print our way to prosperity.

What business man whom you know is basically against the issuance of fiduciary media, against the present fractional-reserve banking structure which we have, against deficit financing by the government?

The typical business men in this country will not be the saviours of capitalism. They are half-hearted Gesellians and Keynesians.

The only possible saviours of capitalism are those who have a solution *in conformity with the Law of God* — no coercion or fraud; or in positive terms, freedom and honesty. fn

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